Name: ______________________________ Date: ____________

1. The quantity of money in the United States is essentially controlled by the:
   A) President of the United States.
   B) Department of the Treasury.
   C) Federal Reserve.
   D) system of commercial banks.

2. Open-market operations are:
   A) Commerce Department efforts to open foreign markets to international trade.
   B) Federal Reserve purchases and sales of government bonds.
   C) Securities and Exchange Commission rules requiring open disclosure of market trades.
   D) Treasury Department purchases and sales of the U.S. gold stock.

3. The money supply consists of:
   A) currency plus reserves.
   B) currency plus the monetary base.
   C) currency plus demand deposits.
   D) the monetary base plus demand deposits.

4. In a system with 100-percent-reserve banking:
   A) all banks must hold reserves equal to 100 percent of their loans.
   B) no banks can make loans.
   C) the banking system completely controls the size of the money supply.
   D) no banks can accept deposits.

5. In a 100-percent-reserve banking system, banks:
   A) can increase the money supply.
   B) can decrease the money supply.
   C) can either increase or decrease the money supply.
   D) cannot affect the money supply.

6. Banks create money in:
   A) a 100-percent-reserve banking system but not in a fractional-reserve banking system.
   B) a fractional-reserve banking system but not in a 100-percent-reserve banking system.
   C) both a 100-percent-reserve banking system and a fractional-reserve banking system.
   D) neither a 100-percent-reserve banking system nor a fractional-reserve banking system.

7. Financial intermediation is the process of:
   A) settling disputes between borrowers and lenders.
   B) advising corporations on whether to expand using debt or equity.
   C) transferring funds from savers to borrowers.
   D) converting from a barter economy to a money economy.

8. A bank balance sheet consists of only the following items:

Deposits	$1,000
Reserves	$100
Securities	$400
Debt	$500
Loans	$2,000

   What is the value of bank capital?
   A) □1,000
   B) +$500
   C) +$1,000
   D) +$1,500

9. The monetary base consists of:
   A) currency held by the public, plus reserves held by banks.
   B) all outstanding currency, plus reserves held by banks.
   C) all outstanding currency, plus demand deposits.
   D) all bank reserves.

10. If currency held by the public equals $100 billion, reserves held by banks equal $50 billion, and bank deposits equal $500 billion, then the monetary base equals:
A) $50 billion.
B) $100 billion.
C) $150 billion.
D) $600 billion.

11. The reserve□eposit ratio is determined by:
A) the Federal Reserve.
B) business policies of banks and the laws regulating banks.
C) preferences of households about the form of money they wish to hold.
D) the Federal Deposit Insurance Corporation (FDIC).

12. The currency□eposit ratio is determined by:
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13. If the monetary base is denoted by B, rr is the ratio of reserves to deposits, and cr is the ratio of currency to deposits, then the money supply is equal to ______ divided by ______ multiplied by B.
A) $(rr + 1)$; $(rr + cr)$
B) $(cr + 1)$; $(cr + rr)$
C) $(rr + cr)$; $(rr + 1)$
D) $(rr + cr)$; $(cr + 1)$

14. If the ratio of reserves to deposits (rr) increases, while the ratio of currency to deposits (cr) is constant and the monetary base (B) is constant, then:
A) it cannot be determined whether the money supply increases or decreases.
B) the money supply increases.
C) the money supply decreases.
D) the money supply does not change.

15. If the currency□eposit ratio equals 0.5 and the reserve□eposit ratio equals 0.1, then the money multiplier equals:
    A) 0.6.
    B) 1.67.
    C) 2.0.
    D) 2.5.

16. The more funds that the Federal Reserve makes available for banks to borrow through the Term Auction Facility, the _____ the monetary base and the _____ the money supply.
    A) smaller; smaller
    B) smaller; greater
    C) greater; greater
    D) greater; smaller

17. When the Fed decreases the interest rate paid on reserves, it:
    A) increases the reserve–deposit ratio (*rr*).
    B) decreases the reserve–deposit ratio (*rr*).
    C) increases the monetary base (*B*).
    D) decreases the monetary base (*B*).

18. When the Fed decreases the interest rate paid on reserves, if the ratio of currency to deposits decreases also while the monetary base is constant, then:
    A) it cannot be determined whether the money supply increases or decreases.
    B) the money supply increases.
    C) the money supply decreases.
    D) the two changes exactly offset each other.

19. Assume that the monetary base (*B*) is $100 billion, the reserve–deposit ratio (*rr*) is 0.1, and the currency–deposit ratio (*cr*) is 0.1.
    a. What is the money supply?
    b. If *rr* changes to 0.2, but *cr* is 0.1 and *B* is unchanged, what is the money supply?
    c. If *rr* is 0.1 and *cr* is 0.2, but *B* is unchanged, what is the money supply?

20. The Federal Reserve's tools to control the money supply include: open-market operations, the discount rate, and interest payments on reserves.

   a. How should each instrument be changed if the Fed wishes to decrease the money supply?
   b. Will the change affect the monetary base and/or the money multiplier?

21. Explain at least three factors that will affect the quantity of reserves that a bank wishes to hold.

22. The monetary base of Moneyland is $500 million. The current-deposit ratio (*cr*) is 0.2 and reserve-deposit ratio (*rr*) is 0.2. Calculate the money multiplier and money supply.

23. In a fractional-reserve banking system, banks create money when they:
   A) accept deposits.
   B) make loans.
   C) hold reserves.
   D) exchange currency for deposits.

Textbook questions (page 102-103, Problems & applications): Question #2 and 6)